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INDUSTRY AND THE URUGUAY ROUND

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VOLUME 4

Consumer Durable Goods

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INDUSTRY

AND THE

URUGUAY

ROUND

VOLUME **4**

Consumer Durable Goods



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CONSUMER DURABLE GOODS

Consumer durable goods cover a wide range of sectors and subsectors in the Canadian economy. For the purposes of this discussion, consumer durable goods have been grouped to include the following selected categories: furniture and fixtures, hardware, sporting goods, and toys and games. Together this group represents an important segment of the Canadian economy, employing 56 000 people and exporting \$2.3 billion worth of goods annually.

Furniture and Fixtures

Importance to Canada

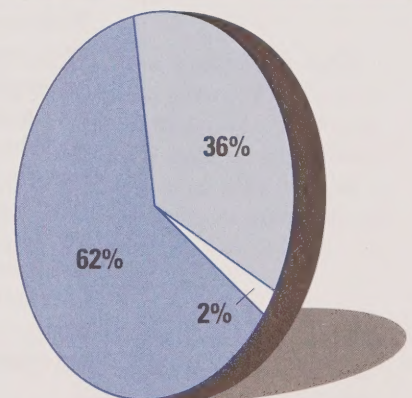
The Canadian furniture and fixtures industry is a major part of Canada's manufacturing infrastructure. In 1993, the industry was composed of some 1 400 establishments employing approximately 42 000 people and had shipments of \$3.84 billion. The industry is also a major source of indirect employment through its purchase of raw materials and supplies.

The furniture and fixtures industry comprises three subsectors: household, office, plus a third category consisting of a variety of other types of furniture and fixtures. In 1993, household furniture accounted for 41 percent of industry shipments, office furniture 21 percent and other furniture and fixtures 38 percent.

Most of the industry is concentrated in Ontario and Quebec, with these provinces accounting for approximately 83 percent of employment and shipments. Approximately 16 percent of shipments originate in western Canada, more or less equally distributed between Manitoba, Alberta and British Columbia. Much of the industry is composed of small factories, about 65 percent of which employ 20 or fewer people. Fewer than 10 Canadian establishments have more than 500 employees, and none has more than 1 000. Eighty percent of the industry's shipments originate from approximately 20 percent of the plants. Ownership of firms in the industry is predominantly Canadian, with less than 5 percent of companies foreign owned.

Currently, the Canadian furniture and fixtures industry is at a crossroads in its development. In addition to having endured the adverse impacts of the recent recession, the industry must now confront issues that will profoundly change the environment in which it operates: trade liberalization, new technical developments and production processes, and changing

Figure 1
Destinations of Canadian
Furniture and Fixtures
Shipments, 1993



Total value = \$3.8 billion

 Canada	 Other
 United States	



Strengths and Weaknesses/ Competitive Assessment

economic conditions. However, in light of recent progress and accomplishments, the industry possesses the potential to respond to the changes and challenges it faces.

In response to the recent recession and the Canada-U.S. Free Trade Agreement, the Canadian furniture and fixtures industry has been forced to make adjustments that it would probably not have made otherwise. The industry has had to transform itself at a forced pace to increase its international competitiveness. In particular, manufacturers have had to re-examine all areas of operations with a view to introducing cost-cutting measures, tightening control mechanisms, and improving plant productivity and product quality. However, the industry recognizes that there is room for further improvement. It recognizes that, to succeed in the new global economy, it will have to shed traditional approaches and continuously improve, even in areas where performance today is considered superior.

Relative to its major foreign competitors, the Canadian furniture and fixtures industry lacks economies of scale. The small corporate scale in Canada is due to the small size of the Canadian market, the scattered distribution of the population and the customer demand for a wide variety of products and styles. These factors, combined with a tradition of family ownership, have deterred the consolidation of firms. As a result, the industry is subjected to the constraints usually associated with small scale. In particular, smaller companies find it difficult to obtain financing from private sources at reasonable rates and conditions. This in turn is restricting their abilities to keep pace with their foreign counterparts in modernizing and automating their manufacturing facilities. In addition, company size restricts the extent to which a specialized management group can be efficiently maintained or financially justified. Because management is a scarce resource in Canada, it tends to be allocated where the compensation is highest, in the larger firms and organizations. Finally, smaller firms lack the marketing resources to take full advantage of domestic and export market opportunities.

While largely responsible for its weaknesses, small scale also constitutes one of the industry's major strengths. In many respects, Canadian firms have been able to use their small size to advantage by adopting a flexible approach in meeting the requirements of small buyer groups in Canadian and foreign markets. There are numerous examples of Canadian firms, which would be considered small by international standards, that are recognized as leaders in their respective fields. These companies have developed vision, strategic perspective and professional rather than familial/intuitive management. They are working in alliances with their suppliers and clients. Generally speaking, these firms concentrate on market niches where design and quality are more important than price. One factor of success for several of these smaller firms has been that they have compensated for their lack of economies of scale by building productive partnerships with their suppliers and clients, and by tapping external expertise and resources that their own companies could not provide.

Another strength that the industry possesses is the tough entrepreneurial spirit of its owners. In addition, given equivalent manufacturing facilities and production scale, Canadian labour is as productive as foreign labour.

Trade Patterns and Performance

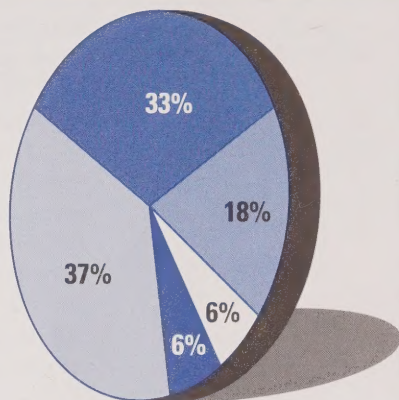
In 1993, Canadian exports of furniture and fixtures reached \$1.45 billion, representing 37.7 percent of industry shipments. Household furniture accounted for 28.9 percent of export shipments, office furniture 34.9 percent and other furniture and fixtures at 36.2 percent. Canadian imports of furniture and fixtures totalled \$1.35 billion, accounting for 36.1 percent of the domestic market. Household furniture accounted for 50.1 percent of all imports, office furniture 12.2 percent and other furniture and fixtures 37.7 percent. The U.S. was the leading foreign supplier, accounting for 73.1 percent of all imports, followed by Taiwan at 7.9 percent, the European Union at 7.5 percent and China at 3.8 percent.

The 1993 trade surplus of the Canadian furniture and fixtures industry amounted to \$98 million. While the office furniture and other furniture and fixtures subsectors reported trade surpluses of \$340 million and \$16 million, respectively, this was partially offset by a trade deficit of \$258 million in the household subsector. With respect to markets, Canada had trade surpluses with a number of countries, including \$394 million with the United States and \$7 million with Japan. Canada's trade deficits were largest with the European Union at \$79 million and with developing countries at \$208 million.

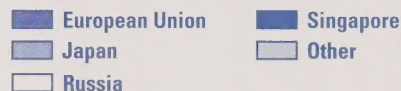
The key element of the Uruguay Round negotiations under General Agreement on Tariffs and Trade (GATT) for the Canadian furniture and fixtures industry is the elimination of or reduction of the most favoured nation (MFN) tariffs on furniture, furniture parts and input materials. The tariff cuts began on January 1, 1995. Canada's MFN tariffs on wooden household furniture will be reduced by one third over five years, while those on office furniture and other types of furniture and fixtures will be eliminated. Other major industrial countries (European Union, Japan, United States) have agreed to remove essentially all tariffs on furniture and fixtures.

Where applicable, Canadian tariffs on furniture and fixtures imported from countries enjoying MFN status ranged between 6 and 25 percent in 1994. MFN tariffs assessed by European Union countries on Canadian exports ranged from 4.4 percent to 7.0 percent, while Japan's tariffs ranged from 3.8 percent to 5.4 percent.

Figure 2
Furniture and Fixtures Exports to Non-U.S. Destinations, 1993



Total value = \$67 million



Impact of the Uruguay Round



While MFN tariffs on most input materials will also be reduced by an average of one third by the year 2000, some will have even deeper cuts. Canada's offer on fabrics averaged 37 percent, with some cuts as deep as 44 percent (e.g. man-made woven and all-knit fabrics will fall from a rate of 25 percent to 14 percent); however, the tariff cuts will be spread over 10 years. Such fabrics are important inputs for upholstered furniture. Lower tariffs on inputs will decrease the cost of materials and thus help to make the Canadian industry more competitive.

As a result of the Uruguay Round negotiations, Canadian furniture and fixtures manufacturers may expect increased import pressures/competition in their own domestic markets from western European manufacturers, particularly in the areas of higher-priced products with unique designs, and from Asian manufacturers, notably in the areas of furniture components and lower-priced, ready-to-assemble furniture. This will be particularly true for products other than wooden household furniture, where significant tariffs have been maintained. However, just as the Uruguay Round will open Canada's domestic markets to competition, the agreement will also create new and expanded market opportunities for efficient and creative Canadian furniture and fixtures manufacturers.

The U.S. represents the largest export market for Canadian manufacturers, receiving 95.4 percent (\$1.38 billion) of furniture and fixtures exports in 1993, followed by the European Union at 1.5 percent (\$22 million) and Japan at 0.8 percent (\$12 million). The Uruguay Round is not expected to dramatically alter Canada's existing trade patterns for its furniture products. The U.S. will continue to remain Canada's principal client and supplier owing to its geographical proximity, common characteristics of furniture product design, quality and standards.

Despite high transportation costs, several overseas markets will offer opportunities for increased penetration by efficient Canadian furniture and fixtures manufacturers as a result of the elimination or reduction of tariffs under the Uruguay Round negotiations. Of these export markets, the European Union, Canada's second largest export market, is expected to offer the best opportunities for aggressive Canadian exporters in selected market niches. In 1993, the European Union's total imports of furniture and parts was approximately \$21 billion, of which Canada contributed only \$22 million or 0.1 percent. Similarly, Japan, Canada's third largest export market, imported approximately \$2 billion in furniture and parts, of which Canada accounted for only 0.6 percent or \$12 million. Clearly, there exist significant potential to expand Canadian export opportunities in large established markets as a result of the Uruguay Round.

Table 1

**Value of Exports and Foreign Tariff Rates on Furniture and Fixtures,
Before and After Implementation of the World Trade Organization**

HS Code	Product Description (major products)	Value of Exports, 1993	European Union Tariff Rates		Japan Tariff Rates		Australia ^a Tariff Rates	
			Before	After	Before	After	Before (unbound)	After (bound)
		(\$ millions)	(percent)					
9401.61	other upholstered seats, with wooden frame	61	5.6	0	4.8-5.4	0	30	15
9401.71	other upholstered seats, with metal frame	107	5.6	0	4.8	0	30	15
9401.90	seat parts	255 ^b	4.4-5.6	1.7-2.7	4.8	0-3.8	2-30	1-15
9403.10	metal office furniture	161	5.6	0	4.8	0	30-42.5	15
9403.20	other metal furniture	103	0-5.6	0	4.8	0	30-42.5	15
9403.30	wooden office furniture	165	5.6	0	4.8	0	30-42.5	15
9403.40	wooden kitchen furniture	93	5.6	2.7	4.8	0	42.5	22
9403.50	wooden bedroom furniture	135	5.6	0	4.8	0	42.5	15
9403.60	other wooden furniture	210	5.6	0	4-4.5	0	30-42.5	15
9403.90	parts for furniture of other materials	129	5.6	2.7	4.8	0	42.5	22

^a Australia used many unbound tariff rates prior to 1995. Unbound rates could be raised unilaterally to any level without compensation. All tariff rates shown in the "After" column are bound rates to which Australia agreed in the Uruguay Round. Actual rates in the "After" column may be the lower of the "Before" or "After" tariff rates where binding provides a ceiling for unilateral tariff rate increases.

^b Excluding parts for seats of a kind used for motor vehicles.



Table 2

**Value of Imports and Canadian Tariff Rates on Furniture and Fixtures,
Before and After Implementation of the World Trade Organization**

HS Code	Product Description (major products)	Value of Imports, 1993	Canada Tariff Rates	
			Before	After
		(\$ millions)	(percent)	
9401.61	upholstered seats, with wooden frame	235	15	0-9.71
9401.71	upholstered seats, with metal frames	55	9.2-12.6	0-8.3
9401.90	seat parts	43 ^a	12.6-25	0-15.7
9403.10	metal office furniture	87	12.6-12.7	0
9403.20	other metal furniture	172	12.6	8.3
9403.50	wooden bedroom furniture	89	15-15.3	9.7-9.9
9403.60	other wooden furniture	250	15	0-9.7
9403.90	parts for furniture of other materials	110	12.5-15	0-9.7

^a Excluding parts for seats of a kind used for motor vehicles.

Importance to Canada

Sporting Goods

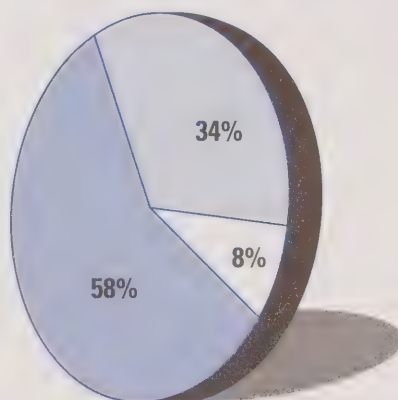
The Canadian sporting goods manufacturing industry comprises approximately 208 establishments and employs roughly 7 300 people. In 1993, the industry had annual shipments of about \$809 million, of which \$338 million (42 percent) were exported. Imports were about \$794 million and accounted for 63 percent of the apparent Canadian market (ACM). The worldwide market for sporting goods is estimated to be about \$70 billion, with Canada representing approximately 2 percent (\$1.3 billion) of the total market. Taiwan continues to be the leading exporter of sporting goods, with almost 20 percent of world exports.

The sporting goods manufacturing industry is composed of a number of diverse subsectors that include skates (ice, in-line and roller), hockey equipment and sticks, gym/exercise equipment, swimming pools and accessories, bicycles and parts, snow and ski equipment, golf equipment, playground equipment, fishing equipment, and table sports.

The Canadian sporting goods industry retains a high degree of Canadian ownership. Companies range in size and scope from numerous relatively small operations serving niche markets to large, globally competitive companies with the economies of scale, resources and management to compete internationally. While the smaller companies have established reputations in diverse niche markets such as sport whistles, swim goggles, above-ground pools, etc., the Canadian sporting goods industry is best known internationally for its strengths in the skating and hockey equipment, cycling components/accessories, and exercise equipment segments. Canada's presence in these segments is dominated by one or more technically advanced, internationally competitive manufacturers that have been in the forefront of opening new markets for the Canadian sporting goods industry.

The Canadian sporting goods industry, like the industry worldwide, is labour intensive. Despite substantial efforts to reduce labour content and enhance international competitiveness, the Canadian industry remains relatively labour intensive. This leaves it vulnerable to competition from newly industrialized countries and less developed countries with lower production and labour costs. To alleviate this pressure, some Canadian sporting goods manufacturers have

Figure 3
Destinations of Canadian Sporting Goods Shipments, 1993



Total value = \$809 million

■ Canada □ Other
■ United States



Strengths and Weaknesses/ Competitive Assessment

moved production and sourcing of many labour-intensive, low-cost items to offshore suppliers. Nonetheless, the Canadian industry remains at a cost disadvantage relative to manufacturing operations in low-wage countries.

The structural factors affecting the competitiveness of the Canadian sporting goods industry include scale of operations, access to financial resources, brand-name recognition, wage costs and technological advances. The industry is largely Canadian controlled and has a high degree of private ownership. It includes six large vertically integrated companies that are internationally competitive in the manufacturing and distribution of sports equipment.

Of these six largest manufacturers, three are Canadian controlled, while U.S. and British interests control the remaining three firms.¹ They suffer no serious disadvantages because of economies of scale. These firms are industry leaders in research and development projects that are designed to maintain international competitiveness. Some of them have embarked on cooperative ventures that involve research staff and facilities of universities in conjunction with downstream suppliers to develop and evaluate the performance characteristics of new technologies and materials. The Canadian industry is also a major user of new composites and technologies; it has introduced more efficient production methods and has developed specialized niche markets for products such as skating and hockey equipment, swimming pools and fitness equipment. The larger firms producing this equipment have kept pace with their competitors throughout the world in modernizing their facilities and upgrading their products.

An important factor affecting the Canadian industry's ability to compete is consumer demand for brand-name products. In some subsectors such as skating and ice hockey, Canadian brands are well known and internationally recognized. Skating and ice hockey products accounted for over 25 percent of Canada's total sporting goods exports. In most subsectors, however, Canadian companies have had difficulty in making their names widely known. This lack of brand-name recognition is a serious impediment among the small and medium-sized businesses of the industry. Worldwide sporting goods production is characterized by a high degree of country-specific product identification and manufacturing specialization. For example, Finland is noted for cross-country ski manufacturing, Austria and France for alpine skis, the U.S. for golf, and Canada for skating and ice hockey equipment. In some segments, there continues to be strong brand-name identification associated with a country, although actual production has been shifted to low-wage countries. For example, although baseball is closely identified with the United States, most baseball gloves are produced in the Far East.

To maintain their market position in the face of aggressive competition in Europe from domestic companies in areas such as skates and hockey equipment, some Canadian firms have initiated joint ventures or licensing agreements and have established overseas subsidiaries.

¹ Nike Inc. of the U.S. has made a proposal to acquire control of Canadian-owned Canstar Sports Inc. Approval under the *Industry Canada Act* is pending as of January, 1995.

Trade Patterns and Performance

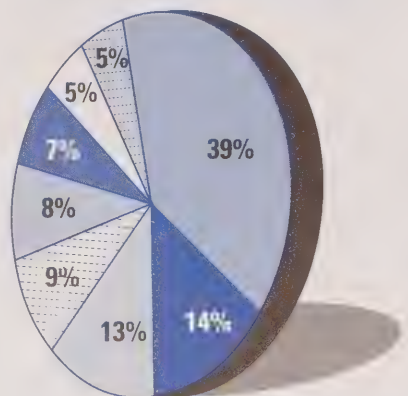
Other measures include transferring final assembly and/or packaging of Canadian products to European distributors and shipping Canadian branded products directly from Far East contractors to European markets.

Several major factors will influence the future direction of the Canadian industry. The continuing emphasis on personal fitness and family recreational activities is expected to sustain growth and popularity in these areas at the expense of growth in competitive individual and team sports. More female participation has helped to increase overall participation in many recreational and sporting activities, resulting in an increased demand for existing and new equipment. Also, the baby boomers, which represent one third of the population, are showing a preference for recreational individual and team activities, with an emphasis on individual fitness, rather than competitive team sports. This baby boomer segment has an increased awareness of and demand for improved protection for themselves and their families, resulting in greater demand for better-quality, more durable equipment.

In 1993, Canadian exports of sports equipment totalled \$338 million, representing 42 percent of industry shipments. Eighty-one percent of all Canadian sporting goods exports were received by the U.S., with the European Union absorbing 9 percent, Asia 3 percent and others 7 percent. Within product and subgroup categories of sporting goods, Canada's major exports were hockey equipment, skates and sticks, accounting for about \$94 million or 28 percent of all Canadian sporting goods exports, gym/exercise equipment with exports of \$113 million, and swimming pool kits and accessories with exports of \$36 million. These three segments accounted for over 70 percent of total exports.

Imports accounted for \$794 million in 1993, representing an overall deficit in the trade of sporting goods of \$456 million. It is estimated that parts and components used by Canadian manufacturers for further assembly and processing made up approximately 25 percent of imports. The United States was the origin of 43 percent, Taiwan 23 percent and other Asian countries as a group contributed 20 percent of all imports, followed by the European Union at 8 percent, and other countries at 6 percent. Major imports in 1993 were bicycles and parts, exercise equipment and parts, golf equipment and parts, ski equipment, and fishing equipment. These five segments represented about 65 percent of total imports.

Figure 4
Sporting Goods Exports
to Non-U.S. Destinations, 1993



Total value = \$63.1 million

Germany	Switzerland
United Kingdom	Netherlands
Japan	Taiwan
France	Other



Impact of the Uruguay Round

Of Canada's overall trade deficit in 1993 of about \$456 million, \$63 million was with the United States and \$331 million was with Asian countries. Canada also posted a trade deficit of \$53 million with western Europe (European Union at \$33 million, European Free Trade Association at \$20 million), and \$8 million with various other countries.

While exports of Canadian sporting goods equipment to western Europe will continue to grow as a result of the Uruguay Round negotiations, the major increases will continue to be made in Canada's primary export market, the United States. This U.S. growth is fuelled by the growing North American popularity of certain market segments where Canadian firms are already major players — hockey equipment, skates and sticks, in-line roller skates, exercise equipment, products and accessories associated with the marine industry, and roller and ball hockey. With leading manufacturers in all these categories, Canada is in an excellent position to take advantage of this surge in popularity. Because the European Union and Japan have been slower to adopt/accept these latest North American trends, Canadian exports to these areas are proceeding at a slower pace.

A number of Canadian companies for which brand-name recognition and/or market niches have been established should benefit under the more liberalized trade rules (namely in the areas of winter sports equipment, swimming pools, gym/fitness, and playground equipment). This factor, plus their competitive advantage with respect to price and quality will ensure continued growth in new and expanded export markets. The new agreement on the protection of intellectual property rights will safeguard Canadian brand names in other markets.

The development of market economies in eastern Europe are expected to create additional opportunities for skating and hockey and exercise equipment, which are already popular in these countries.

Under the terms and conditions agreed to by Canada under the GATT, MFN tariffs on sporting goods will be gradually reduced by one third over a five-year period commencing January 1, 1995.

Currently, Canadian MFN tariff rates on imported sporting goods range between 4 and 23 percent and, overall, are significantly higher than comparable U.S. and European Union tariffs. It is estimated that one third of all sporting goods and parts enter Canada either duty-free or under some type of duty drawback arrangement.

With the conclusion of the GATT and where the European Union continues to be a significant market for the industry, some major Canadian industries are establishing wholly owned subsidiaries in the European Union, while others are aligning with EU-wide wholesalers or are developing licensing arrangements. Medium-sized businesses are showing increased interest in identifying contacts that will optimize opportunities. It is thought that most of the industry's export growth opportunities will be realized in the U.S. and Europe, while concern has been expressed regarding competition from eastern Asian countries such as Taiwan, Republic of Korea, Malaysia, China, and the Philippines.

Over the next decade, worldwide demand for sporting goods is expected to enjoy consistent growth resulting from the rise in income levels in many countries and an increasing interest in pursuing leisure-time activities while maintaining an active and healthy lifestyle.

Table 3

**Value of Exports and Foreign Tariff Rates on Sporting Goods Products,
Before and After Implementation of the World Trade Organization**

HS Code	Product Description (major products)	Value of Exports, 1993	European Union Tariff Rates		Japan Tariff Rates		Switzerland ^a Tariff Rates	
			Before	After	Before	After	Before	After
		(\$ millions)	(percent)					
6506.10.00	safety headgear for sports	29.0	6	2.7	6.6–7.2	4.4–4.8	1.3 or 0.79 sf/kg	1.0 or 0.62 sf/kg
8712.00.00	bicycles/other non-motor cycles	8.3	17	15	4.8	0	4.1 or 0.16 sf/kg	3.1 0.12 sf/kg
8714.00.00	bicycle parts/accessories	4.6	8	4.7	3.2–4.8	0	0.1–4.6 or 0.03– 0.60 sf/kg	0–4.4 or 0– 0.47 sf/kg
9504.20.00	billiard tables/equipment	5.2	5.6	0	0	0	3 or 0.26 sf/kg	2.3 or 0.20 sf/kg
9506.11/ 12/19	snow skis/poles/bindings/equipment	10.3	6	2.7–3.7	2.4	0	3.3 or 0.63 sf/kg	2.5 or 0.48– 0.50 sf/kg
9506.70.20	in-line/roller skates	14.0	6	2.7	4.8	0	9.2 or 0.96 sf/kg	4.6 or 0.48 sf/kg
9506.91.00	gym/exercise equipment	112.5	6	2.7	4.8	0	1.3 or 0.79 sf/kg	1.0 or 0.62 sf/kg
9506.99.11	ice hockey sticks/parts	25.3	6	2.7	0	0	5.3 or 0.59 sf/kg	2.6 or 0.29 sf/kg
9506.99.19	hockey equipment (excluding gloves/helmets)	22.4	6	2.7	0	0	5.3 or 0.59 sf/kg	2.6 or 0.29 sf/kg

^a Switzerland calculates its tariff collected as the higher of the yield of the specific tariff of X Swiss francs (sf) per 100 kilograms of gross weight or the yield from the ad valorem tariff. The specific tariff is shown here as scaled to 1/100. For example, the rate of 79 sf per 100 kg is shown as 0.79 sf/kg.



Table 4

**Value of Imports and Canadian Tariff Rates on Sporting Goods Products,
Before and After Implementation of the World Trade Organization**

HS Code	Product Description (major products)	Value of Imports, 1993 (\$ millions)	Canada Tariff Rates	
			Before	After
			(percent)	
8712.00	bicycles/other non-motor cycles	83.1	13.2	13.2
8714.00	bicycle parts/accessories	96.2	8–11.3	5.3–7.4
9504.20	billiard tables/equipment	16.2	9.2–15	0
9506.11/ 12/19	snow skis/poles/bindings/ equipment	52.0	10.2–12.6	6.7–8.3
9506.31/ 32/39	golf equipment (excluding bags/gloves)	92.3	4–12.3	2.7–8.1
9506.51/ 59/61	racquet sports equipment	23.2	4–11.8	2.7–7.7
9506.70	skates — ice/roller/in-line	34.3	8.8–22.5	5.8–18.2
9506.91	gym/exercise equipment	121.9	9.2–12.5	6.6–8.2
9506.99.99	playground equipment	16.3	11.8	7.7
9507.10/ 20/90	fishing equipment	53.6	6.8–10.8	4.5–7.1

Hardware

Importance to Canada

The Canadian hardware industry manufactures a broad range of products including locks and latch sets, cabinet and casket hardware fittings, hinges, and shelving hardware. The industry also manufactures a variety of hand tools and implements such as augers, axes, chisels, edge tools, garden implements, hammers, handsaws, mechanics measuring tools, screwdrivers and wrenches.

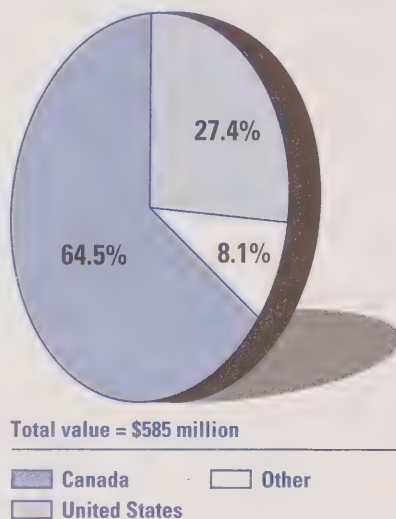
Companies having 20 or fewer employees dominate Canada's hardware manufacturing sector, which employs approximately 4 700 people. Despite this fact, a small number of larger firms, 30 percent of which are subsidiaries of U.S.-based multinationals, account for about 60 percent of industry shipments, estimated in 1993 at \$585 million.

Strengths and Weaknesses/Competitive Assessment

The most important factors affecting competitiveness are manufacturing costs for standard hardware products as well as innovation, design and manufacturing quality for specialized hardware products and precision hand tools. Raw materials and wages represent the two largest cost factors for hardware manufacturers. In both the U.S. and Canada, materials account for 42 percent of the value of shipments, while labour accounts for between 25 and 27 percent. However, in serving a much larger domestic market, the U.S. industry has attained a higher level of product specialization. U.S. plants have been able to exploit economies of scale to a fuller extent and thus are able to enjoy the benefits of longer production runs. Labour productivity in the U.S. industry is approximately 25 percent higher than that in Canada. Large U.S. plants have also tended to invest in more modern machinery and equipment, with the result that U.S. firms have attained a greater level of productivity than either Canadian firms or U.S.-owned subsidiaries operating solely in the smaller Canadian market.

In general, Canadian hardware plants manufacture a wide range of high-quality products. The majority of Canadian companies are small, family-owned enterprises that have developed from the natural design talents and technical skills of the owner-inventor-managers, who often lack expertise in other business functions. Only the larger firms are administered by highly trained management teams. Canadian producers of widely produced high-volume hardware products

Figure 5
Destinations of Canadian Hardware Shipments, 1993





Trade Patterns and Performance

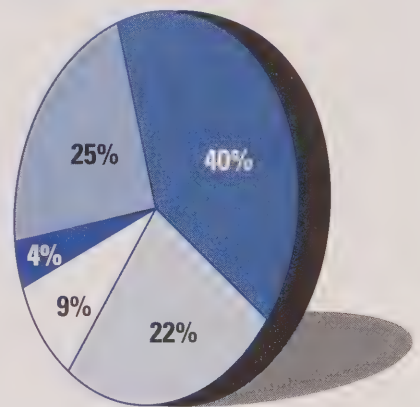
such as hammers are vulnerable to price competition, and are not considered internationally competitive. However, several efficient manufacturers of more specialized hardware and hand tool lines are considered internationally competitive. The industry is constantly designing and developing new products in order to be at the leading edge of product innovation and to establish and maintain a presence in world markets. Where design and quality are often more important than price, Canadian hardware manufactures will continue to be competitive as they develop and exploit specialized market niches.

In 1993, exports of hardware increased by approximately 25 percent over the previous year's level and were valued at approximately \$208 million, representing almost 36 percent of the industry's total shipments of \$585 million. About 77 percent of total exports were destined for the United States.

Canadian imports of hardware were \$692 million in 1993, representing a 7 percent increase over the 1992 level and resulting in a trade deficit of \$484 million. The major sources of imports were the U.S. at 61 percent and Asia (primarily Taiwan) at 23 percent.

Global consumer expenditures on hardware products have remained stagnant over the past few years. Canada is a net importer of hardware products and has traditionally been dependent on the U.S. as its primary source. Recently, there has emerged a noticeable shift away from U.S. imports in favour of products from offshore markets such as Taiwan and eastern Asia (e.g. Singapore, Malaysia, Indonesia, Brunei, the Philippines). Steady growth in hardware exports from these countries reflects their substantially lower material and labour costs. While it is difficult to match Asian competitors strictly on a cost basis, the competitive edge for Canadian firms is found in the quality and innovations of their products. Areas of promise for Canadian hardware products include lawn and garden equipment, the do-it-yourself markets, patio garden ornaments, and tools. Niche market opportunities exist for do-it-yourself products in Japan, hand and power tools in Mexico, and drywall tools in Europe.

Figure 6
Hardware Exports to
Non-U.S. Destinations, 1993



Total value = \$47.8 million

United Kingdom	France
Netherlands	Other
Australia	

Impact of the Uruguay Round

Increasing domestic competition has forced Canadian manufacturers to seek out other foreign markets. Currently, the U.S. accounts for over 90 percent of Canadian hardware exports, in part because of the FTA. The NAFTA will open up the Mexican market to competitive Canadian hardware and housewares products. Mexican tariff rates for these products currently range between 15 and 20 percent and will be phased out over the next 10 years. This is of importance to Canadian manufacturers, because the Mexican market for household durables is expected to continue to grow as the country's standard of living rises. Moreover, many Canadian companies view Mexico as a gateway to Latin America.

The European market has received increased attention from Canadian exporters in recent years. However, because of strong local competition, the European Union market is viewed primarily as one that will offer the greatest potential for specialized niche products.

In addition to expanded trade potential provided by the FTA and NAFTA, the GATT will offer further support to Canadian manufacturers who wish to seek/establish and diversify their export markets.

Canada's MFN tariff rate for hardware in the past generally ranged from 9.2 to 11 percent. The European Union and Japan tariffs averaged 5 percent. These MFN tariffs will be reduced by one third over five years, starting January 1, 1995.



Table 5
Value of Exports and Foreign Tariff Rates on Hardware Products,^a
Before and After Implementation of the World Trade Organization

HS Code	Product Description (major products)	Value of Exports, 1993	European Union Tariff Rates		Japan Tariff Rates		Australia ^b Tariff Rates	
			Before	After	Before	After	Before	After (bound)
		(\$ millions)	(percent)					
8301.40	locks of base metal not elsewhere specified	30.7	5.6	2.7	5.1	2.7	25 (unbound)	15
8301.60	lock parts, including parts of clasps or frames with clasps, of base metal, not elsewhere specified	15.7	5.6	2.7	5.1	2.7	25 (unbound)	15
8302.10	hinges of base metal	74.4	0-4.9	0-2.7	5.1	2.7	37.5-50 (bound)	23
8302.20	castors of base metal	10.3	0-4.9	0-2.7	5.1	2.7	42.5 (bound)	42.5
8302.41	mountings, fittings and similar articles of base metals for buildings, not elsewhere specified	56.5	4.9	2.7	5.1	2.7	20 (unbound) to 42.5 (bound)	16
8302.42	mountings, fittings and similar articles of base metal for furniture, not elsewhere specified	24.2	0-4.9	0-2.7	5.1	2.7	42.5 (bound)	22
8302.49	mountings, fittings and similar articles of base metal, not elsewhere specified	16.8	0-4.9	0-2.7	5.1	2.7	20 (unbound) to 37.5 (bound)	19
8302.50	hat-racks, hat-pegs, brackets and similar fixtures, of base metal, not elsewhere specified	6.8	4.9	2.7	5.1	2.7	20 (unbound)	15

^a The HS codes and product descriptions shown do not reflect solely products associated with the hardware industry, and the figures may include products of other sectors as well.

^b Australia used many unbound tariff rates prior to 1995. Unbound rates could be raised unilaterally to any level without compensation. All tariff rates shown in the "After" column are bound rates to which Australia agreed in the Uruguay Round. Actual rates in the "After" column may be the lower of the "Before" or "After" tariff rates where binding provides a ceiling for unilateral tariff rate increases.

Table 6**Value of Imports and Canadian Tariff Rates on Hardware Products,
Before and After Implementation of the World Trade Organization**

HS Code	Product Description (major products)	Value of Imports, 1993 (\$ millions)	Canada Tariff Rates	
			Before	After
			(percent)	
8204.20	wrench sockets including ratchet handles, extensions, spinners	24.0	10.2-11.3	6.7-7.4
8205.59	tools for masons, miners, and hand tools not elsewhere specified	73.6	4-11.3	2.7-7.4
8205.70	vices, clamps and the like	31.9	6.3-10.4	4.2-6.9
8212.20	safety razor blades including razor blade blanks in strips	37.3	9-10.2	6-6.7
8301.10	padlocks of base metal	19.0	10.2	6.7
8301.60	lock parts, including parts of clasps or frames with clasps, of base metal, not elsewhere specified	63.8	10.2	6.7
8302.10	hinges of base metal	116.4	10.2	6.7
8302.42	mountings, fittings and similar articles of base metal for furniture, not elsewhere specified	45.4	10.2	6.7



Importance to Canada

Toys and Games

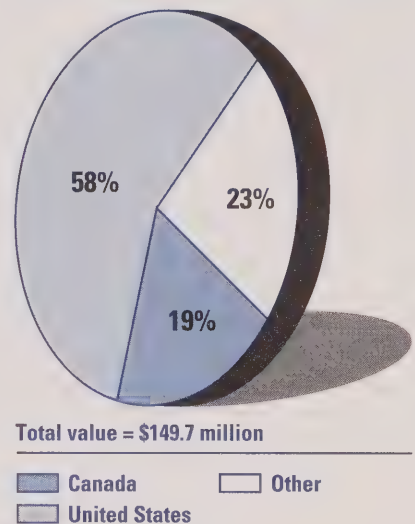
In 1993, toys and games in Canada were made in an estimated 58 establishments employing approximately 1 460 people. The industry was heavily concentrated in Ontario and Quebec, which accounted for 47 percent and 30 percent of the establishments, respectively. Both provinces offer access to large consumer markets and labour pools as well as to input materials and subcontracting facilities such as plastic moulding, packaging and sewing. The total value of shipments in 1993 was approximately \$150 million.

The Canadian toys and games industry comprises four broad product categories: wheeled toys and doll carriages; dolls, doll clothing and parts; skill/action games (educational), puzzles, construction toys, stuffed toys; and video and electronic games.

The world toys and games industry is dominated by a few large multinational enterprises (MNEs), which are mainly U.S.-owned. They develop new toys and make production, promotional and marketing decisions on a global basis. The world market for toys and games is worth approximately \$65–70 billion annually at the retail level, of which the United States accounts for 39 percent and Canada approximately 3 percent (\$2.0 billion). The global industry is characterized by increasing rationalization and concentration of manufacturing activity designed to enhance MNE market shares and global distribution systems. The result has been severe import pressure on North American manufacturing activities as the production of more labour-intensive products moves offshore to Asian countries, where labour rates are significantly lower. Increasingly, the North American industry has become more oriented toward assembly, packaging and distribution.

While the Canadian toys and games industry is not considered to be internationally competitive, it does, however, possess certain niche market strengths (e.g. toy construction sets, skill/action puzzles and games). The Canadian industry is still mostly a branch plant sector, originally established primarily to service the relatively small, highly protected domestic market. Foreign ownership (primarily American) dominates the Canadian toys and games industry,

Figure 7
Destinations of Canadian
Toys and Games Shipments, 1993



Strengths and Weaknesses/ Competitiveness Assessment

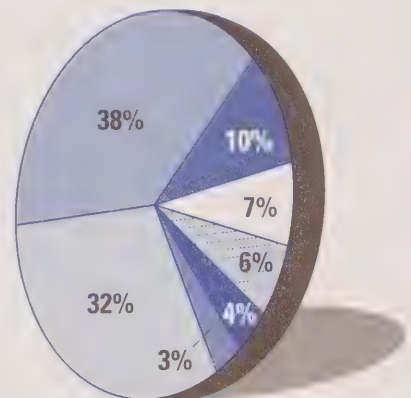
accounting for controlling interest in almost one half of all establishments and two thirds of industry shipments. Although Canadian subsidiaries of large American MNEs benefit from the technology, management and marketing skills, advertising, promotional and financial resources of their parent companies, very few products are originally developed by the Canadian industry. Research and development and investment decisions are undertaken outside the Canadian operations, leaving mostly assembly, warehousing, packaging and distribution activities to be conducted in Canada. The phase-out of tariffs under the Canada-U.S. Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA) is expected to have a significant negative impact on what production is still done in Canada by many of these MNEs. Rather, indications are that their efforts will be even more focused on improving product marketing and the distribution aspects of their operations.

U.S. companies tend to license Canadian companies to manufacture large toys for the domestic market to offset short-term U.S. and offshore MNE capacity constraints or to give Canadian operations North American mandates for more mature and/or lower-demand products. Material costs tend to be lower in the U.S., mainly because of volume discounts. Shorter production runs and more frequent changeovers contribute to higher manufacturing costs in Canada. There is no significant difference between labour rates in the U.S. and Canada for toy and game product workers.

Recent trends in the toys and games sector indicate that more emphasis is being placed on toys as an important child development tool. Faced with less time to spend with their children, working parents are demanding toys and games that, in their absence, develop, educate and teach rather than merely entertain. There has also been a greater interest in traditional toys that have more educational value. Some of the smaller Canadian manufacturers have successfully developed new educational games and skill/action puzzles and construction sets, and it is anticipated that this trend will continue to offer a stable, growing market over the next few years.

In 1993, the Canadian toys and games industry exports were valued at approximately \$121.5 million, an increase of about 58 percent over the 1992 level. Exports represented 81.1 percent of the industry's total shipments of \$150 million. Slightly over 71 percent (\$86.9 million) of exports were sent to the

Figure 8
Toys and Games Exports
to Non-U.S. Destinations, 1993



Total value = \$34.6 million

United Kingdom	Paraguay
Hong Kong	Germany
France	Other
Japan	

Trade Patterns and Performance



Impact of the Uruguay Round

United States, 15.5 percent (\$18.9 million) to the European Community, 6.0 percent (\$7.5 million) to Asia and 7.0 percent (\$8.2 million) to other countries (notably Paraguay at \$1.3 million and Australia at \$1.2 million).

Canadian imports of toys and games were worth \$1 083.3 million in 1993, which represents an increase of 23 percent over the 1992 level. The overall trade deficit reached \$961.8 million. Imports accounted for 97.4 percent of the apparent Canadian market. Sixty-six percent (\$711.0 million) of imports arrived from Asia (primarily China, Taiwan and Hong Kong), followed by 29.2 percent (\$316.3 million) from the United States, 3.1 percent (\$33.5 million) from the European Union, and 2.1 percent (\$22.5 million) from other countries.

The main export segment of the Canadian industry is construction sets and construction toys, which increased in 1993 by over 105 percent to \$44.9 million from \$21.6 million in 1992. This followed a 160 percent increase in 1992 over the 1991 level. This segment represented more than one third of total toys and games exports in 1993. Puzzle exports also increased dramatically, up by 130 percent to \$10.1 million from \$4.4 million. As for the other major export segments, model toys without motors accounted for exports of \$28.3 million, and funfair/table/parlour games accounted for exports of \$17.6 million.

The most significant growth in imports continued to be video games and parts, which grew by 39 percent to \$313.3 million in 1993, following a 60 percent increase in 1992. This segment in 1993 represented about 29 percent of total toys and games imports. Other major import segments were model toys without motors (up 4 percent at \$104.5 million), stuffed toys (up 11 percent at \$71.8 million), and dolls (up 13 percent at \$62.0 million).

In general, the Canadian industry is not considered to be internationally competitive and will continue to be at a competitive disadvantage in the foreseeable future. Structurally, most of the Canadian industry exists primarily as a branch plant sector dominated by a few large foreign multinationals that control the industry worldwide. A majority of the Canadian establishments are relatively small and do not benefit from major research and development activities, economies of scale or lower production costs. With the increasing movement of more labour-intensive production to low-cost, offshore (eastern Asian) manufacturing facilities, the Canadian industry is becoming more and more oriented toward packaging, warehousing and distribution. Despite these factors, Canadian manufacturers have been very successful in penetrating international markets in such niche segments as construction sets/toys, puzzles and certain model toys. Success in international trade is expected to come from the continuing development and aggressive marketing of niche products in these segments.

The U.S. will continue to be Canada's major export market for toys and games. As a result not only of structural factors, but also of ongoing trade liberalization initiatives such as the GATT, FTA and NAFTA, the Canadian domestic market will continue to be dominated by imports from MNEs and low-cost Asian countries.

Canada's MFN tariff rates tend to be higher than those of the U.S., European Union and Japan but lower than Australia's. Canada's MFN rates for toys and games range between 3.9 and 17.6 percent, compared with a range of 5 to 12 percent for the United States, 6 to 10.5 percent for the European Union, 3.8 to 4.6 percent for Japan, and 10 to 25 percent for Australia.

Effective January 1, 1995, Canada has agreed to eliminate its tariffs for all toys and games covering Harmonized Commodity and Coding System (HS) headings 9502 to 9505. These items are: dolls; toys (including reduced-size scale models such as trains), construction sets and construction toys; puzzles; stuffed animals; toy musical instruments; video games; modelling kits; articles for funfair, table or parlour games — billiards, bowling, playing cards, etc.; and festive, carnival and other entertainment articles including tricks and jokes. For HS 9501 (tricycles, wheeled toys, and doll carriages), Canadian tariffs will be reduced by one third, to be phased in over five years.



Table 7
Value of Exports and Foreign Tariff Rates on Toys and Games Products,
Before and After Implementation of the World Trade Organization

HS Code	Product Description (major products)	Value of Exports, 1993	European Union Tariff Rates		Japan Tariff Rates	
			Before	After	Before	After
		(\$ millions)	(percent)			
9503.30	construction sets/toys	44.9	8-8.7	0-4.7	4.2-5.8	0
9503.60	puzzles	10.1	8-8.7	0-4.7	4.2-5.8	2.8-3.9
9503.90	other model toys w/o motors not elsewhere specified	28.3	8	0-4.7	4.2-5.8	2.8-3.9
9504.90	other funfair/table or parlour games	17.6	5.6	0	0-5.7	0

Table 8
Value of Imports and Canadian Tariff Rates on Selected Toys
and Games Products,
Before and After Implementation of the World Trade Organization

HS Code	Product Description (major products)	Value of Imports, 1993	Canada Tariff Rates	
			Before	After
		(\$ millions)	(percent)	
9502.10.00.00	dolls (representing human beings)	62.0	15	0
9503.41.00.10	stuffed toys (representing animals) — plush	55.6	15	0
9503.49.00.80	toys not elsewhere specified (representing animals) — excluding battery power	35.0	10.3	0
9503.90.00.60	push-pull toys (including vehicles w/o motors)	34.7	12.7	0
9503.90.00.89	other model toys w/o motors not elsewhere specified	104.5	12.7	0
9504.10.00.10	video games used w/o TV receiver	265.1	0	0
9504.90.11.00	electronic games — hand-held	51.1	0	0

